R annual report 1957

R. J. REYNOLDS TOBACCO COMPANY

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1957

annual report to the stockholders

R. J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM, NORTH CAROLINA

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COMPARATIVE SUMMARY

	1957†	1956
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$1,053,325,579	$957,366,846
Net Earnings	64,160,000	61,912,680
Net Earnings as a percentage of Net Sales	6.09%	6.47%
Earnings per share on common stocks *before* taxes on income*	$ 13.59	$ 13.43
Taxes on income per share of common stocks*	7.44	7.52
Net Earnings per share on common stocks*	6.15	5.91
Dividends per share on common stocks	3.30	3.10
Dividends on Preferred Stock	2,656,588	2,762,959
Dividends on common stocks	32,718,477	30,706,583
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$713,097,450	$659,393,945
Current Assets	646,592,766	611,099,605
Current Liabilities	179,985,149	147,564,749
Net Current Assets—Working Capital	466,607,617	463,534,856
Real Estate, Machinery and Equipment—net	63,557,065	45,011,682
Funded Debt	104,000,000	110,000,000
Equity of holders of Preferred Stock	66,572,300	68,483,400
Equity of holders of common stocks	362,540,001	333,345,796
Number of stockholders at year end	82,493	81,091
Number of regular employees at year end	12,188	11,977

* Based on 10,000,000 shares.

† The 1957 figures reflect the adoption of the LIFO method, as explained in this report.

R. J. REYNOLDS TOBACCO COMPANY

TO THE STOCKHOLDERS

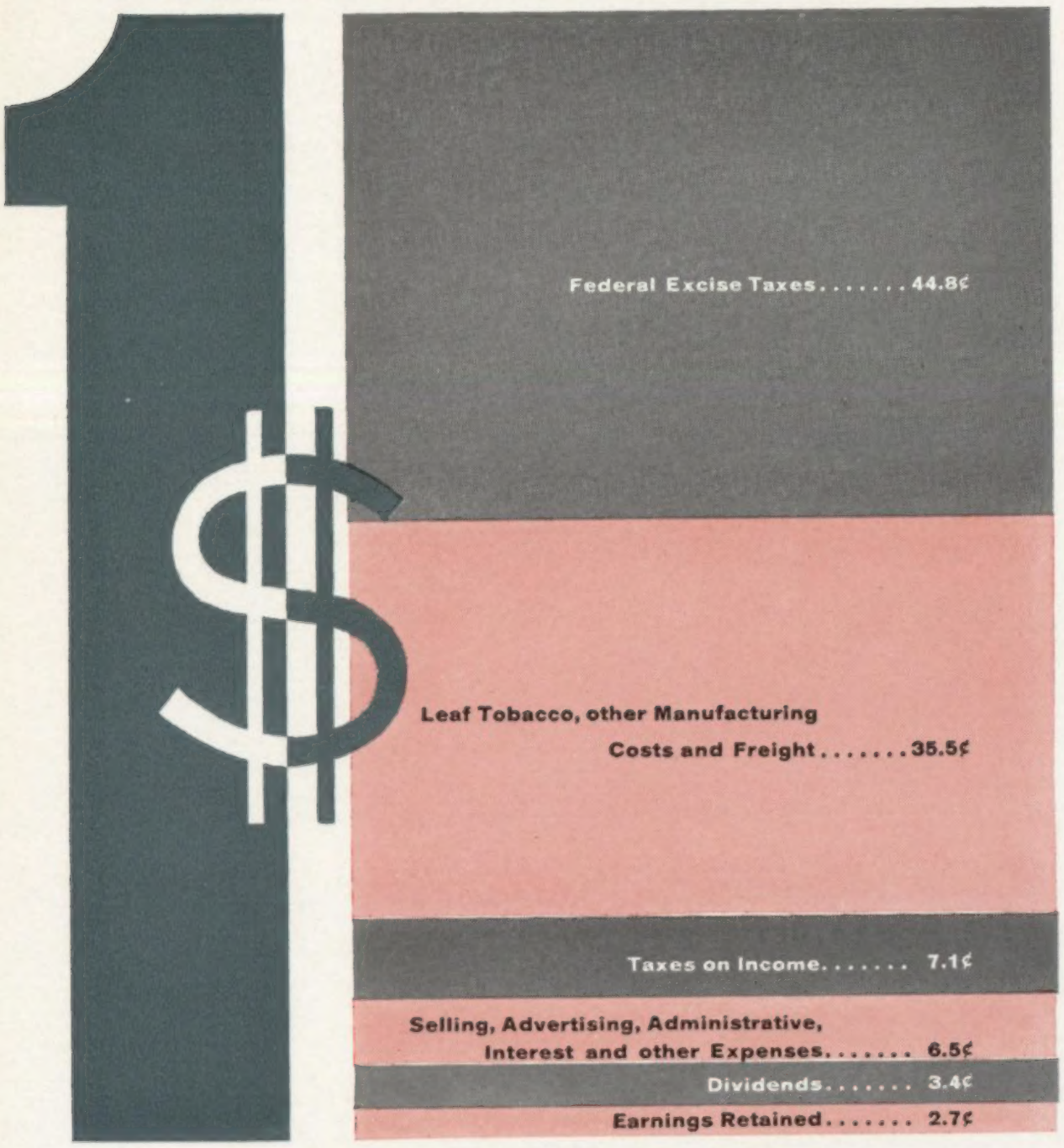
New high records were established in 1957 by the Company in sales, in earnings, and in payments to shareowners. For the first time in the Company's history, sales exceeded the billion dollar mark, reaching $1,053,325,579, an increase of $95,958,733 or 10% over 1956, the previous high year.

In the last quarter of the year, the quarterly dividend rate on the common stocks was increased to 90 cents a share, the highest ever paid by the Company. This marked the fourth increase in the quarterly rate since 1953. Total dividends paid in 1957 on the common stocks amounted to $3.30 a share, as against $3.10 in 1956, $2.60 in 1955, $2.40 in 1954, and $2.00 in 1953. Including dividends on the Preferred Stock, total dividend disbursements in 1957 were $35,375,065, equivalent to 55.1% of net earnings.

Net earnings for the year were $64,160,000, compared with $61,912,680 for 1956. After dividends on the Preferred Stock, the earnings applicable to the 10,000,000 common shares were $6.15 a share, against $5.91 in 1956.

During 1956 and prior years, inventories were valued on the average cost method. Effective for 1957, however, the Company adopted the last-in, first-out (LIFO) method of inventory valuation. By this method, the current costs of replacing materials used are more nearly reflected in determining earnings. In 1957, acquisitions of leaf tobacco were made at prices considerably higher than the average cost of tobacco in inventories at the beginning of the year. The effect of LIFO and related adjustments was to reduce earnings before income taxes by $26,897,049 and net earnings by $12,342,049. The resultant income tax saving for the year amounted to $14,555,000. Inventories at the year end were carried at $28,312,684 less than they would have been under the previous method.

DISTRIBUTION OF THE 1957 SALES DOLLAR



DISPOSITION OF 1957 NET EARNINGS

Dividends Paid		$35,375,065
Increase in Inventories	$29,292,961	
Increase in Cash and Receivables	6,200,200	
Increase in Current Assets	35,493,161	
Less Increase in Current Liabilities	*32,420,400*	
Net Addition to Working Capital		3,072,761
Reduction in Funded Debt		6,000,000
Purchase of Preferred Stock		1,501,830
Net Addition to Plant and Equipment		18,545,383
Less Decrease in Other Assets		*335,039*
Total—Net Earnings for 1957		$64,160,000

Decision to change the method of inventory valuation was not made until late in the final quarter of the year and consequently the estimates of earnings for the first three quarters were made on the basis of the previously used method. Giving effect to the LIFO method and other year end adjustments, the previously published estimated interim earnings are restated as follows:

Quarter Ended	Net Earnings	Per Common Share
March 31	$13,133,000	$1.25
June 30	15,101,000	1.44
September 30	18,479,000	1.78

Cigarette Sales at Record High

The number of cigarettes sold by the Company in 1957 was substantially greater than in any prior year. Both of the Company's filter-tip brands, WINSTON and SALEM, continued their sales growth. WINSTON materially strengthened its position as the country's leading filter-tip cigarette, and is now recognized as the fourth largest-selling cigarette among all brands, filtered and non-filtered. SALEM, in the less than two years that it has been on the market, has already become the country's leading filter-tip, menthol-flavored cigarette.

It is estimated that in 1957 about 40% of all cigarettes sold by the industry were filter-tipped, representing for the first time a larger share of the domestic market than non-filtered, regular-size cigarettes. In view of the continuing growth in popularity of filter-tips, there has again been a decrease in the volume of non-filtered cigarettes. This was reflected in the Company's sales of its CAMEL and CAVALIER brands. CAMEL, however, still remains the country's largest-selling cigarette. In June, the list prices of CAMEL and CAVALIER Cigarettes were advanced by 35 cents a thousand.

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While as in previous years there was some reduction in the Company's smoking and chewing tobacco volume, PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco continue as the largest selling brands in their respective fields. CARTER HALL Smoking Tobacco, an aromatic blend, which was first introduced in 1956, was made available on a national basis early in 1957 and has met with gratifying consumer acceptance.

Plant Expansion for the Company's Growing Business

To provide facilities for the Company's growing business, a substantial expansion program is under way. During 1957, the investment made in plant and equipment amounted to $23,982,158. The program contemplates additional expenditures of some $50,000,000, including about $20,000,000 for 1958.

Research Laboratory Addition. Enlargement of the Research Building has doubled the floor area available for this important activity. The cost of this addition is about $2,000,000. While not all equipment has been installed, the entire office section and about half of the laboratories are already in use. Provision has been made for radioisotope laboratories where tracer work can be performed to augment present and anticipated studies. A greenhouse has been provided for experimental growing of leaf tobacco.

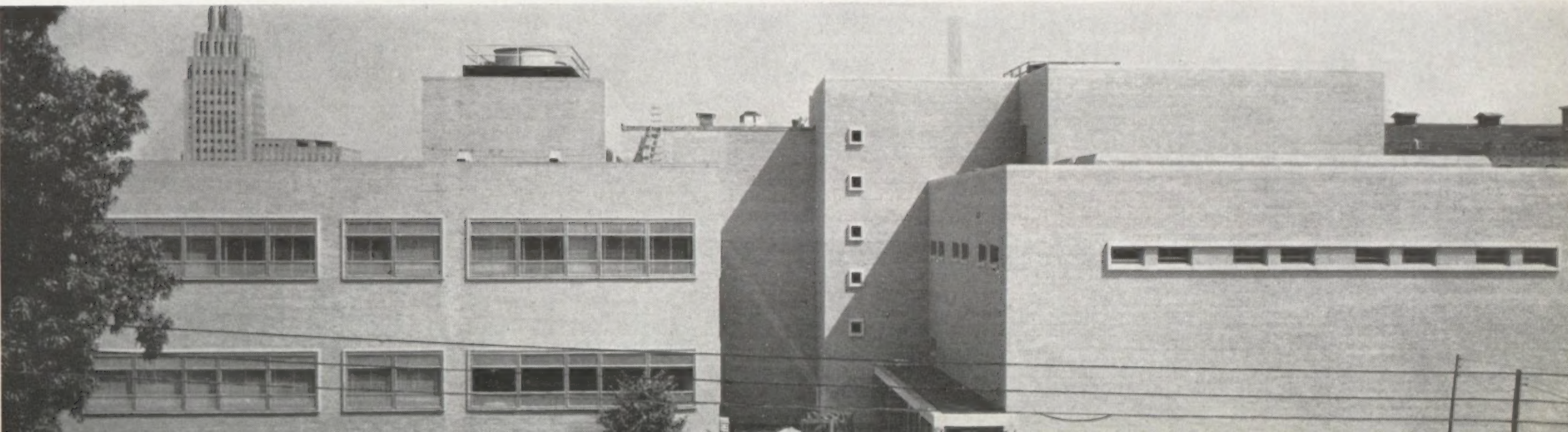
Lexington Project. Near Lexington, Kentucky, on a tract of 270 acres, 24 leaf tobacco storage warehouses have been constructed. They have a storage capacity of about 130,000,000 pounds. A stemming and redrying plant, steam generating plant and other auxiliary buildings are almost completed. It is expected that the entire project will be finished in the next few months. This facility will increase the Company's capacity for stemming, redrying and storing of leaf tobacco, will enable these operations to be performed on a more efficient basis and will result in further improvement in quality. When the new buildings are completed, it is anticipated that the Company will discontinue use of its old redrying plants at Louisville and Lexington. The entire project is estimated to cost $13,100,000.

Brook Cove Project. This plant, which is located near Walnut Cove, North Carolina, a few miles from Winston-Salem, is similar to the Lexington project but is larger. There will be 48 leaf tobacco storage warehouses which will have a capacity of about 260,000,000 pounds. Estimated to cost $20,000,000, this unit is scheduled for completion in 1959. It is anticipated that this new stemming and redrying plant will replace an old plant located in downtown Winston-Salem. The additional leaf storage facilities will make possible a substantial saving in rentals for leased space.

Tobacco Processing Plant. The construction of a new tobacco processing plant in Winston-Salem is well under way. It is expected that sufficient equipment will be installed for the plant to be in partial operation in June, 1958. The estimated cost is $4,700,000.

Cigarette Factory. Still in the design stage, a new cigarette factory is to be constructed near Winston-Salem. The cost is estimated at $20,000,000. Completion is anticipated for late in

Enlarged Research Building showing new addition at the right



1960 or early in 1961. It is contemplated that this new plant will increase the Company's cigarette production capacity by about 25%.

Aluminum Foil Rolling and Converting Plant. Buildings for this operation, which is located in Winston-Salem, have been completed. While much of the equipment has been installed, completion is not expected until July, 1958. The estimated cost is $5,200,000. This plant, which is in partial operation, is known as Archer Aluminum and is an operating division of the Company. Among other activities, Archer Aluminum will print a part of certain kinds of the labels and cartons used by the Company. The new facility will provide additional and more efficient means for rolling, laminating and printing of foil. Production not needed for the Company's own use will be sold to industrial users. Archer Aluminum is presently working with users and prospective users of aluminum foil to develop new products for packaging and other purposes.

Employee Relations

The progress and accomplishments of the Company have been made possible by the teamwork and diligence of its thousands of employees in all their various activities and at all levels of responsibility. Your management believes that this fine cooperation and loyalty result from the feeling of pride that the employees have in their work and the personal satisfaction that they have in their relationships with the Company. Important in this regard are not only pay rates, benefit plans, and opportunities for advancements but also mutual understanding. Early last year, the Company received national recognition from the United States Chamber of Commerce "for outstanding achievement in creating a better understanding among employees of the operation of its business and the American free-market economy".

It has long been the Company's practice to fill managerial openings by promotion, and extensive training toward this end is provided. To assist employees to prepare themselves for larger opportunities with the Company, there has been put into effect an Educational Plan under which the Company shares the tuition cost for employees who undertake courses of study that relate to their present positions or other positions to which they may reasonably aspire.

The Profit Sharing Plan approved by the stockholders at the annual meeting in 1956 has contributed significantly to impress upon employees the importance of efficiency, maximum production and avoidance of waste. Under this Plan, a portion of the Company's annual profits is paid to the Trustee for credit to eligible employees in proportion to their respective salaries or wages for the year. One-third of the annual payment is invested by the Trustee in New Class

Storage warehouses under construction at Lexington, Kentucky

B Common Stock of the Company and the balance in other assets selected by the Trustee. Benefits under the Plan are payable on retirement, death or other termination of employment. The share of the Company's profits for 1957 payable to the trust amounted to $4,232,434. For 1956, the amount so paid was $4,020,183. Officers and employees entitled to participate in the profit sharing payment for 1957 numbered 10,210.

As of January 3, 1958, certain changes were made to modernize the Company's group insurance programs which have been in effect for many years. This included a new contributory Comprehensive Medical Plan for salaried employees.

At the close of 1957, the Company's regular employees numbered 12,188 and its seasonal employees 3,398. The average length of service for regular employees was 16 years. Of the regular employees, 8,025 had unbroken service records of 10 or more years, 4,800 of 20 or more years, 2,262 of 30 or more years and 222 of 40 or more years.

Number of Stockholders at Record High

Continuing the trend of recent years, the number of registered holders of the Company's stocks has further increased to a record high. At the end of 1957, holders of all classes of stock numbered 82,493, including 73,211 holders of common shares and 9,282 holders of Preferred Stock. Holders of common shares increased 1,701 during the year.

At the year end the book value of the common stocks was $36.25 a share, as against $33.33 a share at the end of 1956.

On behalf of the entire organization, appreciation is expressed for the continued confidence, interest and helpfulness of the shareowners.

The year just closed was one of progress. Your management looks with confidence to further substantial progress in the years that lie ahead.

Respectfully submitted for the Board of Directors,

Chairman, Board of Directors *Vice Chairman, Board of Directors* *President*

February 1, 1958.

New aluminum foil rolling and converting plant
in Winston-Salem, North Carolina

PRODUCTS

CAMEL | SALEM

WINSTON | CAVALIER

CIGARETTES

SMOKING TOBACCO

PRINCIPAL BRANDS OF CHEWING TOBACCO

R. J. REYNOLDS TOBACCO COMPANY

10 YEAR

CONDENSED COMPARATIVE

SALES, EARNINGS AND DIVIDENDS
(amounts in thousands of dollars)

	1957†	1956	1955	1954	1953
Net Sales	$1,053,326	$957,367	$866,426	$814,274	$876,189
Income before taxes	138,606	137,103	121,268	103,343	102,873
Federal and state taxes on income	74,446	75,190	68,000	58,516	68,701
Net Earnings	64,160	61,913	53,268	44,827	34,172
Dividends on Preferred Stock	2,657	2,763	2,794	2,894	2,934
Dividends on common stocks	32,718	30,707	25,737	23,732	19,756

FINANCIAL POSITION AND EQUITIES
(amounts in thousands of dollars)

Current Assets	$ 646,593	$611,100	$566,735	$574,025	$558,394
Federal and state tax liabilities	63,744	71,202	69,574	62,279	71,513
Other current liabilities	116,241	76,363	51,865	82,593	66,189
Working Capital	466,608	463,535	445,296	429,153	420,692
Real Estate, Machinery and Equipment—net	63,557	45,012	41,486	40,259	36,395
Total Assets	713,097	659,394	611,641	617,636	598,609
Funded Debt	104,000	110,000	115,000	120,000	125,000
Equity of holders of Preferred Stock	66,572	68,483	70,686	73,377	75,000
Equity of holders of common stocks	362,540	333,346	304,516	279,386	260,907

FINANCIAL STATISTICS

Income taxes per share of common stocks*	$ 7.44	$ 7.52	$ 6.80	$ 5.85	$ 6.87
Earnings per share on common stocks*	6.15	5.91	5.05	4.19	3.12
Dividends per share on common stocks	3.30	3.10	2.60	2.40	2.00
Book value per share of common stocks*	36.25	33.33	30.45	27.94	26.09

*Based on 10,000,000 shares.

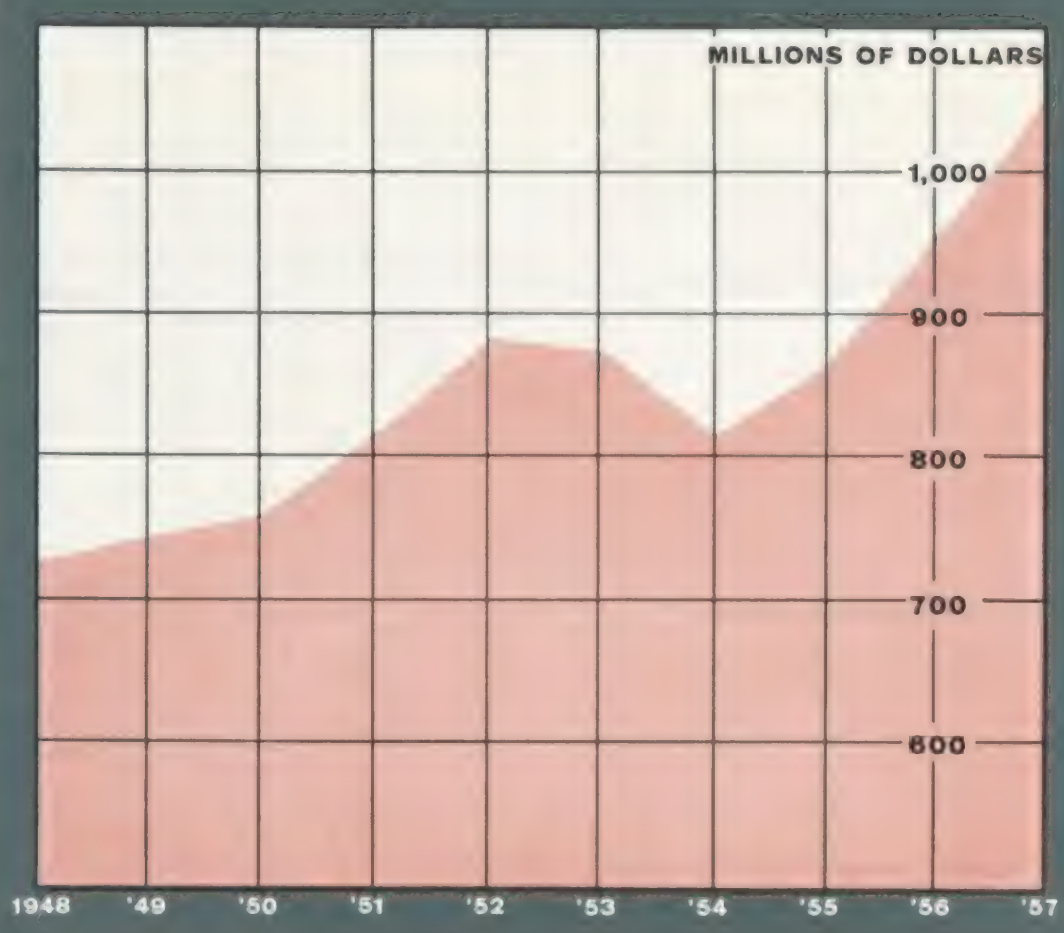
†The 1957 figures reflect the adoption of the LIFO method, as explained in this report.

RECORD

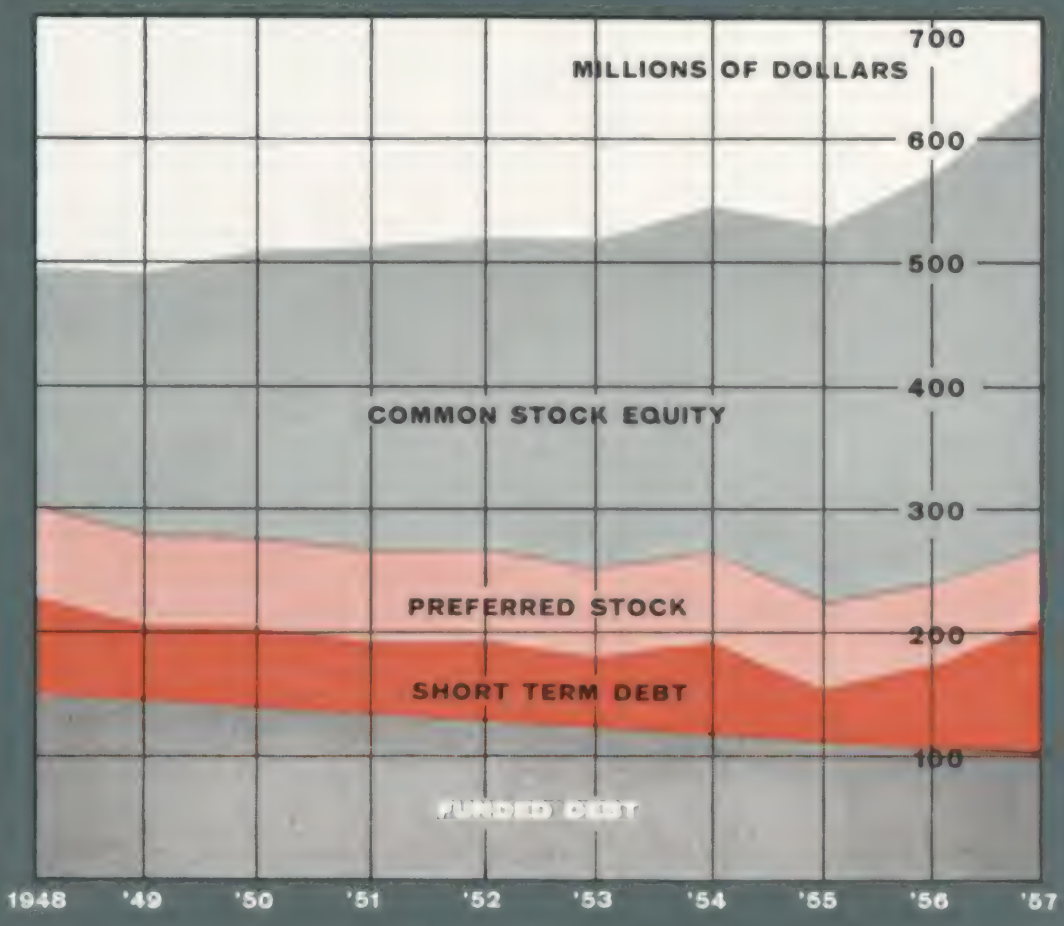
FINANCIAL DATA

	YEAR ENDED DECEMBER 31			
1952	1951	1950	1949	1948
$881,424	$814,217	$759,856	$746,345	$724,921
95,514	92,177	77,979	68,925	60,939
63,565	60,060	37,721	28,471	26,322
31,949	32,117	40,258	40,454	34,617
2,934	2,934	2,934	2,934	1,994
19,723	19,715	19,714	19,661	20,000
$553,200	$540,646	$518,122	$493,678	$497,691
65,237	60,594	38,146	28,971	27,065
71,979	67,158	70,185	66,501	83,397
415,984	412,894	409,791	398,206	387,229
34,551	32,751	31,611	31,153	29,628
591,641	577,886	553,997	528,529	530,698
130,000	135,000	140,000	145,000	150,000
75,000	75,000	75,000	75,000	75,000
249,425	240,133	230,666	213,056	194,187
$ 6.35	$ 6.00	$ 3.77	$ 2.84	$ 2.63
2.90	2.92	3.73	3.75	3.26
2.00	2.00	2.00	2.00	2.00
24.94	24.01	23.06	21.30	19.42

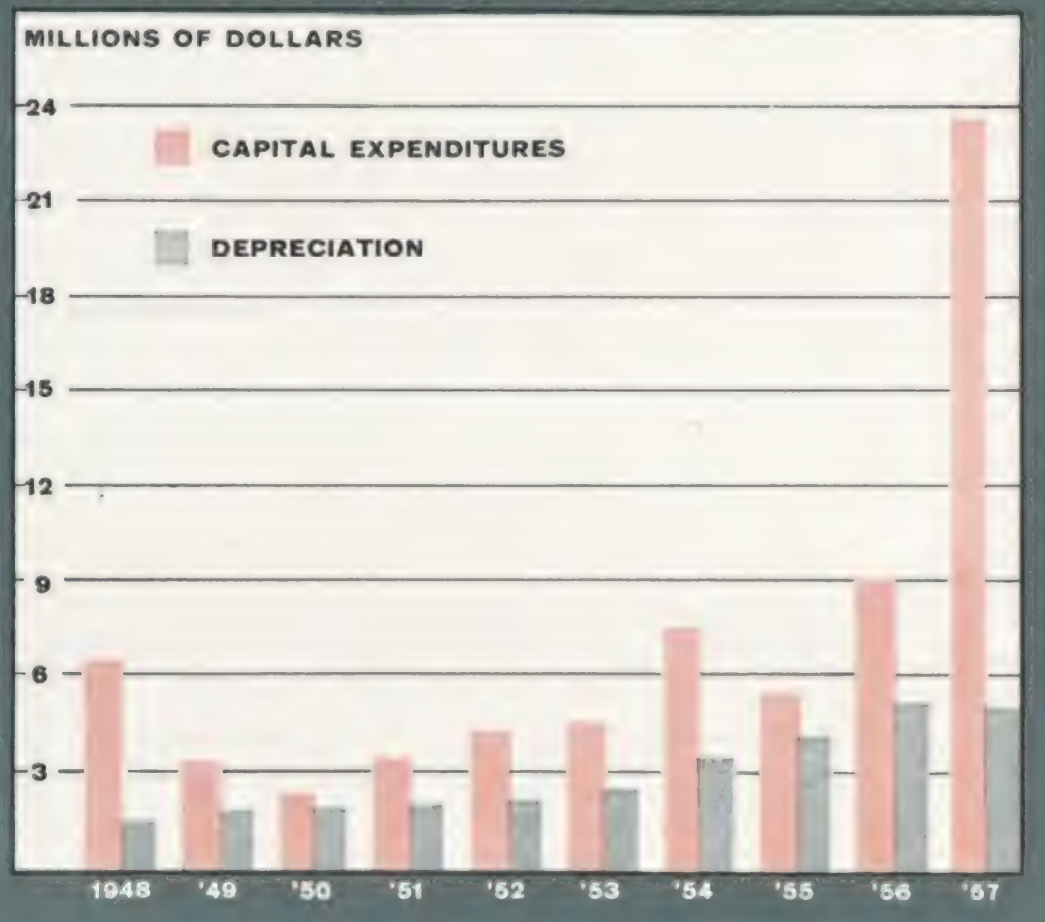
TEN YEAR SALES



EQUITY AND BORROWED FUNDS AT YEAR END



CAPITAL EXPENDITURES AND DEPRECIATION



R. J. REYNOLDS TOBACCO COMPANY

Financial Position

ASSETS	1957	1956
CURRENT ASSETS:		
Cash	$26,141,981	$ 23,697,247
Accounts receivable from customers (less discounts)	33,910,491	30,155,025
Leaf tobacco, supplies, manufactured products, etc.— at cost (Note A)	586,540,294	557,247,333
TOTAL CURRENT ASSETS	646,592,766	611,099,605
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	99,869,772	78,692,520
Less depreciation and obsolescence	36,312,707	33,680,838
NET REAL ESTATE, MACHINERY AND EQUIPMENT	63,557,065	45,011,682
OTHER ASSETS:		
Investments in non-competitive companies	225,000	225,000
Sundry receivables and deposits	486,901	1,585,776
Brands, trade-marks and good will	1	1
Prepaid expenses and deferred charges	2,235,717	1,471,881
TOTAL OTHER ASSETS	2,947.619	3,282,658
	$713,097,450	$659,393,945

December 31, 1957 WITH COMPARATIVE FIGURES FOR 1956

LIABILITIES	1957	1956
CURRENT LIABILITIES:		
Accounts payable	$ 11,985,440	$ 9,681,341
Notes payable	94,475,000	58,450,000
Funded debt due within one year	6,000,000	5,000,000
Federal and state taxes (accrued and contingent)	63,744,444	71,202,497
Sundry accrued accounts	3,780,265	3,230,911
TOTAL CURRENT LIABILITIES	179,985,149	147,564,749
FUNDED DEBT (Note B):		
2½% Promissory Notes	53,000,000	58,000,000
3% Debentures, due 1973	51,000,000	52,000,000
TOTAL FUNDED DEBT	104,000,000	110,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000	49,000,000
4.50% Series	26,000,000	26,000,000
Common Stock—Par $10		
Authorized and issued,		
1957—337,492 shares	3,374,920	
1956—376,378 shares		3,763,780
New Class B Common Stock—Par $10 (Note C)		
Authorized 15,000,000 shares		
Issued, 1957—9,662,508 shares	96,625,080	
Issued, 1956—9,623,622 shares		96,236,220
	175,000,000	175,000,000
Earnings Retained for requirements of the business (Note D)	261,072,510	232,287,575
	436,072,510	407,287,575
Less cost of Preferred Stock, 3.60% Series, in Treasury (84,277 shares in 1957; 65,166 shares in 1956)	6,960,209	5,458,379
TOTAL CAPITAL AND EARNINGS RETAINED	429,112,301	401,829,196
	$713,097,450	$659,393,945

R. J. REYNOLDS TOBACCO COMPANY

STATEMENT OF EARNINGS

Year Ended December 31, 1957
—with Comparative Figures for 1956

	1957	1956
NET SALES	$1,053,325,579	$957,366,846
OTHER INCOME	88,092	51,630
TOTAL INCOME	1,053,413,671	957,418,476
LESS:		
Cost of goods sold, selling and general expenses, exclusive of items below	902,811,683	810,263,229
Provision for depreciation and obsolescence	5,102,760	5,059,382
Interest and debt expense	6,893,228	4,993,185
Provision for Federal and state taxes on income	74,446,000	75,190,000
TOTAL INCOME DEDUCTIONS	989,253,671	895,505,796
NET EARNINGS FOR YEAR (Note A)	$ 64,160,000	$ 61,912,680
Dividends paid on Preferred Stock	$ 2,656,588	$ 2,762,959
NET EARNINGS APPLICABLE TO COMMON STOCKS	$ 61,503,412	$ 59,149,721

STATEMENT OF EARNINGS RETAINED

Year Ended December 31, 1957
—with Comparative Figures for 1956

	1957	1956
EARNINGS RETAINED for requirements of the business—at beginning of year	$232,287,575	$203,844,437
ADD:		
Net Earnings for year	64,160,000	61,912,680
	296,447,575	265,757,117
DEDUCT:		
Cash dividends—		
Preferred Stock		
3.60% Series	1,486,588	1,592,959
4.50% Series	1,170,000	1,170,000
Common stocks at $3.30 per share for 1957 ($3.10 per share for 1956)	32,718,477	30,706,583
	35,375,065	33,469,542
EARNINGS RETAINED for requirements of the business—at end of year (Note D)	$261,072,510	$232,287,575

NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1957

NOTE A: The Company has adopted, effective for 1957, the last-in, first-out method of pricing inventories instead of the average cost method previously used. Such change had the effect of reducing the amount stated for inventories at December 31, 1957, by $28,312,684 and reduced the net income (after income taxes) by $12,342,049.

NOTE B: The principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE C: Of the authorized but unissued shares of New Class B Common Stock, 337,492 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,662,508 shares of issued New Class B Common Stock, 84,373 shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

NOTE D: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1957, the part of Earnings Retained not affected by these restrictions was $206,105,032.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

R. J. REYNOLDS TOBACCO COMPANY, ITS DIRECTORS AND STOCKHOLDERS

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1957, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1957, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year, except for the change (in which we concur) to the last-in, first-out method of inventory valuation as explained in Note A.

ERNST & ERNST,

Certified Public Accountants

Winston-Salem, N. C.

January 31, 1958

R. J. REYNOLDS TOBACCO COMPANY

BOARD OF DIRECTORS

JOHN C. WHITAKER	*Chairman, Board of Directors*
E. A. DARR	*Vice Chairman, Board of Directors and Chairman, Executive Committee*
BOWMAN GRAY	*President*
H. N. HARDY	*Vice President*
H. S. KIRK	*Vice President*
W. J. CONRAD	*Vice President and Secretary*
A. H. GALLOWAY	*Vice President and Treasurer*
H. H. RAMM	*Vice President and General Counsel*
S. M. SCOTT	*Comptroller*
S. B. HANES, JR.	*Superintendent of Leaf Buying*
WILLIAM R. LYBROOK	*Associate Counsel*
KENNETH H. HOOVER	*Director of Research*
ROBERT M. HANES	*Honorary Chairman, Wachovia Bank and Trust Company*
CHAS. B. WADE, JR.	*Personnel Manager*
CHARLES H. BABCOCK	*Partner, Reynolds & Co.*
COLIN STOKES	*Superintendent of Manufacturing*

REGISTRAR

The Hanover Bank
70 Broadway, New York 15, N. Y.

TRANSFER AGENTS

The Chase Manhattan Bank
40 Wall Street, New York 15, N. Y.

The First National Bank of Jersey City
1 Exchange Place, Jersey City 3, N. J.

R. J. REYNOLDS TOBACCO COMPANY